

OPINION *AND* COMMENT



The Dangers of Individualism

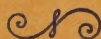
The Housing Situation in the United States

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Earnings of Small Corporations

Bases for a Foreign Trade Policy



OPINION AND COMMENT

A QUARTERLY PUBLICATION

of the

BUREAU OF ECONOMIC AND BUSINESS RESEARCH

COLLEGE OF COMMERCE AND BUSINESS ADMINISTRATION

H. T. SCOVILL, A.B., C.P.A., *Acting Dean*

CONTENTS

	PAGE
The Dangers of Individualism.....	1
M. H. HUNTER	
The Housing Situation in the United States.....	7
R. M. NOLEN	
Lower Income Taxes for 1946.....	13
EDWARD J. FILBEY	
Significance of the Boehm Decision on Deductible Losses.....	18
CHARLES C. CURTIS	
Earnings of Small Corporations.....	23
JOSEPH L. McCONNELL	
Bases for a Foreign Trade Policy.....	33
GRACE BECKETT	

This publication of the Bureau of Economic and Business Research is issued upon the assumption that our readers will appreciate interpretative comments on topics of current interest. Because studied opinions on the significance of current trends are often more thought-provoking than tabulations of data would be, the Bureau supplements its research by issuing *Opinion and Comment* as another type of service.

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The Dangers of Individualism

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WHAT is individualism? Webster says it is that condition under which the independence of the individual is maintained and that it specifically applies to political and economic independence. If individualism is independence, then it is something cherished by all Americans, something gained at the price of revolution, and something to be defended at all costs. Can it be that any dangers lurk in this phase of our American Way of Life? An analysis of some of the types of individualists, and the lengths to which they may go, may help us to be on our guard.

The Totalitarian Individual

At first thought, anything totalitarian has no place in our philosophy of life. Yet it represents a type of individualism, dangerous indeed, and one from which we may not be absolutely free and against which we must be constantly on guard. This is the "me and God" type, with the *me* dictating to God what position He shall take. Lincoln was concerned that his course of action coincide with the will of God, but the totalitarian type of individual directs what the will of God shall be. He assumes the responsibility to direct the thought and actions of others into such channels as he may dictate. He becomes a crusader, par excellence. His motive

may range all the way from selfish lust for power to serious conviction that the world must be reformed, while the method may vary from fanatical propaganda to the most destructive force imaginable.

To say that this type of individualism exists and has existed in the political world is but to repeat the obvious. Note the insane efforts to inflict the control of the will of an individual upon the whole of Europe, if not indeed the world, as nauseating evidence of this. The fact that this has been seriously attempted but emphasizes the need for watchfulness that such a condition is not duplicated in other individuals. Such individualism may be equally disastrous to the body politic whether it be secured through the doctrine of the divine right of kings or whether it be conferred by the people, in a moment of panic or despair, upon one of their number.

This extreme individualism is not confined to the political sphere of our activities but is frequently all too evident in many other endeavors. Take the realm of religion. Here we have one dogma or another espoused to such an extent by individuals and groups that they are willing to go to any length to convert the "heathen" to their own way of thinking—the heathen, of course, being any who embrace another creed. From the Crusader

with the sword to the modern missionary with weapons of a different sort, the motive is the same—to change the world to the pattern of religion which is being dictated. So sure are the dictators that theirs is the true religion that all sorts of devices are made obligatory upon those already in the fold to see that others believe likewise. Some of the most obvious of these are familiar without enumeration.

In our economic life, moreover, we frequently find the totalitarian type of individual. Somehow he has convinced himself that he has discovered a panacea for all our economic ills, and proceeds, with every method at his disposal, to secure its adoption. Periods of depression present the most fertile soil for the germination and growth of such schemes. The Single Tax as a cure-all for economic and social ills, set forth by Henry George in his *Progress and Poverty*, had a considerable following in the latter part of the past century; but try as the advocates might, they could not put it over. In later years Dr. Townsend can be placed in the same category. In spite of all types of high-pressure salesmanship, both without and within legislative halls, his scheme is still within the stages of advocacy which, however, is rapidly waning in intensity. The schemes of other individuals of this type are the pattern for particular groups, such as labor. Note, for example, the dictatorial attitude of such leaders as John L. Lewis and James C. Pettrillo in their attempt to accomplish certain ends.

In his educational career each

reader must have experienced at least one instructor who represents the type of individualist under discussion. "You must believe as I believe and that is all there is to it," is his attitude. He has not sensed that education should consist primarily in mental development to the end that the student will be able the better to recognize problems and to think them through to a logical solution. The educational dictator is afraid to encourage his students to develop any powers of discernment and reasoning.

The "Laissez-Faire" Individual

The philosophy of *laissez faire* is a philosophy of unrestricted individual freedom—each rustles for himself, the devil takes the hindmost. It is a "survival of the fittest" philosophy.

We do not have to search far to find individuals who can be cataloged as type *laissez faire*. First, we find them as they engage in political activities. Many persons exercise this type of individualism in their refusal to engage in politics even to the extent of refusing to vote; yet often these very persons complain loudest and longest about the shortcomings of government. In political activities, this individual is out to get what he can for himself—he is the *politician*, who expects the country to do something for him, rather than the *statesman*, who expects to do something for his country. He is the congressman who, in refusing the request of a young man for his endorsement, says: "I don't care who you are; I don't care what you know or can

do; I don't even care to what political party you belong; but what can you show me that you have done for me?" He is the government official who resists any change in procedure, even though it is certain to result in greater economy and efficiency, unless he can foresee individual gain in the change. Yes, political life is crowded with individuals who want to practice the "let me alone" philosophy.

Ever since Adam Smith published his *Wealth of Nations* in 1776, the doctrine of *laissez faire* has had an application to economics. From then until now it has found expression in such slogans as: "That government is best which governs least"; "Competition is the life of trade"; "Free enterprise"; and "Take the government out of business." We find it involved in isolationism versus internationalism; in protection versus free trade.

In the early 1930's a great many persons attributed the economic state of the nation to the interference of government with business and pointed the way to recovery in, "Take the government out of business." This would mean, presumably, that the government would neither engage in any activity in competition with individuals nor otherwise interfere with the normal course of business. Here is the philosophy of rugged individualism. Put it into effect and no government will engage in building highways or bridges, and in providing educational facilities or protection to person and property. Then we must abolish the protective tariff, for what legislation has done more

to shunt industry from its normal course? Along with this, of course, every other type of regulation would be kicked out of the window. When pressed to this point, even the most rugged of the rugged individualists will begin to make reservations. Too frequently we find them condemning governmental actions which interfere with what they want to do, but praising those which interfere with their competitors. In the end, of course, society plays a considerable role in the success of any business; imagine the success of Robinson Crusoe as a lawyer, a dentist, a grocer, or a teacher! Society does contribute to the success of business operations and therefore may have a right to have something to say about the conduct of those whose goods and services it consumes.

We do not put two groups of eleven men each on a gridiron, give them a football, and tell them to "go to it." Nor do we do similarly with baseball and basketball teams. Experience has shown that, in the urge to win, certain players, either through overenthusiasm or through deliberate treachery, may take unfair advantage of others. The result has been the formulation of certain rules of conduct, but within these rules each individual player may exercise all the ingenuity at his command. The rules are formulated, however, by those who have had experience with the game; those chosen as referees and umpires have had similar experience.

Neither as members of society nor as participants in the complex modern economic life do we want

laissez faire. We should insist, however, that those who make the rules have some knowledge of what the rules are all about and further that the members of the commissions and boards, who are to pass upon violations, are not entirely ignorant of what is involved. Why not use as much common sense in regulating contests in the economic world as we do in regulating those in the athletic world? Let us not carry the rules so far, however, that they will discourage rather than stimulate individual initiative.

In our religious and educational spheres we continue to insist upon *laissez faire*. We do not want any government to dictate how or whom we shall worship, if at all; nor do we want to be told what we shall teach or be taught. Yet, in insisting upon such freedom, we must be on guard that it does not degenerate into license. Some would prostitute the institutions of religion and education to attain their selfish ends. The border between liberty and license, in both religion and education, may be difficult to delineate accurately; but, if the doctrine of freedom is to continue, the necessity for making some distinction is obvious.

The "Give Me" Individual

Here we find those who expect some sort of handout from the social groups — "the world owes me a living" type. Of course the proportion of a group which assumes this attitude must be comparatively small or the whole structure will crash. Too many parasites will kill the host upon which they feed

— note the "flea-bitten" dog or the live oak upon which moss or mistletoe has fastened itself.

Every public official who receives a remuneration more than commensurate with the service he renders his constituency is a parasite. The deeds of the incumbent do not always parallel the promises of the candidate. Promises of economy are met by summarily sweeping previous appointees out the front door, but the back door is opened to pay political debts. Can the amount of campaign expenditures always be taken as a measure of the candidate's desire to render a public service? The limitations put upon such expenditures and the fact that their amount must be made public would indicate some doubt as to an affirmative answer to this question.

We live in the age of pressure groups — those groups the members of which want something for themselves at the expense of the body politic. Industry asks for tariffs, agriculture for parity prices, and labor for one concession after another. These serve to illustrate the philosophy of "give me." If an estimate could be made of the size of the burden society is bearing because of the success of pressure groups motivated by selfish impulses, the amount would be staggering and appalling. In some instances the program sought by the group is offered as a panacea for all our economic and social ills. Note the claim of the Townsendites! They would increase the welfare of all by lessening the amount of goods and services to be distributed. It does not take a very high

I.Q. to comprehend that a smaller total can only result in a smaller per capita portion. We cannot get larger pieces of pie by making smaller pies.

In our society we find many individuals who are consuming more than they are producing or have produced. These are parasites just as certainly as is the flea or the mistletoe. Our eleemosynary institutions contain thousands of individuals who have contributed nothing to their keep nor will ever do so. The report is that in some countries such persons are "liquidated"; but we have not yet reached that state of moral elevation or degradation at which we would be willing to do this. At times the number of those who live off society, either through private charity or through the public treasury, becomes enormous. This may come to be a tremendous strain upon the health of our economy just as the flea and the mistletoe are destructive of the vitality of their hosts.

Everyone connected with a church knows that some members take literally the assurance that salvation is without price. Ask whether they would be willing to have the uplifting influence of the church removed from the community, and they will be insulted at the implication. Yet thousands of individuals are willing to accept the benefits of the church and other uplift agencies supported by the contributions of others. These belong to the "give-me" group.

Our emphasis upon education results in enormous gifts of private and public funds. Free schools are

"free" only to the pupils who attend, not to those who pay taxes to support them. The enormous sums which flow annually into our educational institutions from endowments and public treasuries show the aid extended to our youth. As yet they are parasites—they are the recipients of "give-me." Unless, in years to come, the education received by these youth in our schools and colleges is reflected in the social benefits rendered by them, as adults, to an extent sufficient to repay society for this subsidy to them, they must continue to remain in the class of parasites.

The Chiseler Individual

Meet the hypocrite—he who accepts with gusto a general principle and pronto decides that it does not apply to him as an individual. He believes in regulation of speed, but that *he* should drive as he pleases; he believes in protection of game, but that *he* should be allowed to hunt at will; he advocates rationing, but patronizes the black market.

To any reader who has heard a candidate subscribe to the planks of a platform or make generous promises in a campaign speech, and then has heard his promises to the party leaders, or followed his actions after he was elected, there is no need to point out that chiselers exist among those whom we elect to represent us. The performance of the elected incumbent is too often such that his opponent can promise the same economy and efficiency that had been promised in the previous election. It is interesting to speculate as to the difference we

would experience if promises became practices.

The chiseler may be responsible for more of the ills in our economy than we at first realize. Many of the fundamental principles upon which a stable economy operate are relatively simple, yet just as important as they are simple. It is not difficult to see that the individuals of a group must pay taxes if a government is to function, yet the equity of a tax system may be disrupted if some of these individuals chisel from their fair share. It should not be difficult to convince a group of producers that, if labor is going to be able to buy the products of industry, its wage should be commensurate with its contribution to the product. But some who have agreed to the principle, because of the prospect of individual gain, begin to chisel and force wages down. If this is done to any extent the result is a lack of balance between what is being produced and the power to buy it, and the seeds of a depression have started to grow. It has not been our economic laws that have caused forays from a stable economy but a failure to realize that these laws are immutable.

The chiseler, or hypocrite, is in every church, but who he is will depend upon the person who makes the selection. He is among the graduates of our schools and colleges. He chisels from the principles which he has learned and thereby causes democracy, society, and its economy to be less stable than it

should be. An educated citizen is an asset to society only if his energies are properly directed. An educated crook may be socially and economically more dangerous than an uneducated one.

Robinson Crusoe, at least until Friday came upon the scene, was an individualist—a rugged individualist. His later association with Friday lessened the extent of his individualism. The more complex the social and economic order becomes, the more will the individual be subject to restraints. The principle that the wish of the individual must be subservient to the good of the group must then prevail; in fact, we must accept the philosophy that what is good for the group will react to the good of the individual. The emphasis upon individualism must be replaced by that upon utilitarianism.

Some have questioned whether our political, economic, and other ways of life will endure. If they do not, a contributing factor to their fall may well be the selfish individualism of a large part of the population. A tremendous force for their preservation, on the other hand, rests in the cooperation of individuals to perpetuate the institutions which have proved to be stabilizing factors in our society. The right of each individual to criticize and seek change must be carefully guarded, but in the end the individual must accede to the will of the group. It is only thus that the possible perils of individualism can be averted.

The Housing Situation in the United States

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THE housing shortage in the United States became noticeable during the war period, especially in the cities and areas containing large war industries. Since the close of the war the entire nation has become aware of a serious lack of housing facilities. The thousands of returning soldiers, many unable to find homes, have turned the attention of the public to the problem of inadequate housing facilities in the United States.

Various estimates show that we need a minimum of three and one-half million new homes at the present time, and that we could use a million new homes each year for the next ten years if we could maintain the present level of employment and production.

After World War I there was a housing shortage similar to the present situation. The rate of construction had declined during the war, only about 200,000 housing units being constructed each year from 1918 to 1921. That rate of building was below the needs of the increasing population and left the country without adequate housing when the soldiers returned to civilian life.

Several years were required to increase the rate of construction, but by 1925, dwellings were produced at a rate of over 900,000 units per year. Even at this rate of con-

struction, the housing shortage was not alleviated until 1930, when lack of employment opportunities and reduced incomes decreased the demand for houses.

Causes of the Present Housing Shortage

The present shortage of housing can be attributed, to a large extent, to the low rate of construction of housing units during the prewar period. From 1930 to 1935, the rate of construction was less than 200,000 units a year, and from 1935 to 1939 less than 400,000 a year were constructed as compared with a rate of 750,000 a year during the period 1925 to 1929.

A picture of the housing situation can be obtained from the report on housing which was published as part of the 16th Census of the United States, taken in 1940. These statistics show that there were 37,325,470 dwelling units in the United States in 1940. A dwelling unit is defined as the living quarters occupied by one household. Of these dwellings 96 per cent were occupied; only 4 per cent were vacant, for sale, and for rent. The dwellings were classified as "urban," "rural non-farm," and "rural-farm." Those dwellings in incorporated places having 2,500 inhabitants or more are classified as urban. Rural non-farm dwellings are those

located outside the boundaries of urban places, but not on farms. Rural farm dwelling units are those located on farms outside urban places.

A considerable proportion of these dwelling units were in need of some repairs and modernization. Even in 1940, 45.3 per cent were without private bath, and 18 per cent were in need of major repairs. During the war repairs and modernization were not maintained at the average rate, hence even more dwellings are now in a less desirable state. Some housing units are lost every year by fire and by complete obsolescence.

In the years 1941 and 1942, housing construction was greater than during the thirties, more than 750,000 and 650,000 units, respectively, being built in those years. In 1943 construction fell to 300,000 units, and in 1944 to less than 150,000 dwellings.

Another important cause of the housing deficit is the increase in the number of marriages and in the birth rate. From 1940 to 1945, nearly 7 million marriages occurred and the population increased approximately 8 million. This rate of marriage was much larger than that of the thirties, and will continue to be large as the veterans return.

Types of Houses Desired

A survey made by the National Association of Home Builders as to the type of houses desired by prospective home builders showed that a large proportion expected postwar homes to be extremely modern and to be available in a short time. The

survey was confined to families with an average annual income of \$3,027. Of the families interviewed, 32 per cent owned their own home, and 45 per cent indicated an expectation of building or buying. The great majority plan to obtain a home from one to two years after the war.

More than half of those interviewed wanted a six-room house with two baths, replete with modern mechanical fixtures. But they expected to spend only \$52 a month in financing the home. Practically three-fourths expected complete air-conditioning, electronic controls, extensive use of plastics, movable partitions, and rooms built as complete units which can be added or removed. Most of these families expected all these features to be available within a year after the war and at a cost of \$40 to \$60 a month.

Some of these features did not exist before the war, and others were available to only a minority of home owners in the high-income brackets. These modern features are likely to come slowly after the war, and the conventional home, with reasonable modifications, will be the dominant type in the period immediately following the war.

The great demand for houses is for the \$4,000 or \$6,000 type, which can be purchased by families with incomes of \$2,000 to \$3,000 a year.

The average house constructed in the twenties cost approximately \$4,800, whereas the cost of the average house in the thirties was \$3,800. Considering the higher level of wages and the present price

level, an average of \$5,500 a housing unit can probably be carried if the level of employment and incomes can be maintained above the level of the twenties.

Housing Costs

The costs of construction vary from city to city, but some general estimates of the present costs of construction in the United States have recently been made. Published cost indexes range for different types of structures from 25 to 35 per cent over averages of 1939. Some contractors estimate the costs as 50 per cent or more above the 1939 averages, and are preferring to take contracts on a cost-plus basis only.

Surveys show increases of 35 per cent and 33 per cent, respectively, in the costs of materials and of labor, on a general average. The greatest increase in building materials has occurred in lumber, which has risen 65 per cent above the 1939 price. The prices of some of these materials may be expected to move downward moderately, as production increases and becomes stabilized upon a peacetime basis. Despite increases in wage rates, labor costs will probably be less as large amounts of overtime become unnecessary, and a more plentiful and efficient labor supply can be recruited.

Contractors will probably be able to quote lower figures for construction as materials become more available, labor becomes more abundant and productive, and also when it is possible to eliminate costly losses occasioned by factors such as un-

even deliveries, unavailable materials, and an uncertain labor force.

These reductions in costs of construction are likely to be only moderate. If the present level of prices, wages, and interest rates is maintained, housing costs will not be much out of line with other costs. The general cost of living has risen approximately 29 per cent during the war period.

Most potential home builders probably have a greater amount of savings to use as a down payment than home builders had in the twenties and the thirties. Interest rates are now one or two per cent lower for many types of mortgages than in the two previous decades. This represents a 20 to 33 per cent drop in the carrying charges on many mortgages, and is a sizable saving on 15 to 25 year mortgage amortizations.

The potential danger of building houses at a high cost, and then experiencing a deflationary period of lower wages and incomes, is causing a number of people to delay building plans. This danger is real and should be considered carefully by all, especially those requiring a large mortgage to finance a home. But with the present housing shortage many people will be forced to take this risk in order to obtain a dwelling.

The Governmental Program for Housing

All wartime restrictions on the construction of homes and commercial buildings were removed on October 15, 1945. The credit restrictions which limited repairs and moderni-

zation were removed at the same time. Before the end of the year, however, the tremendous pressure for governmental action on the housing shortage, particularly for veterans, had brought a reversal of the above policy.

President Truman, on December 13, 1945, announced that priority controls would be established requiring that 50 per cent of available materials be earmarked for residential units costing less than \$10,000 (cost of land was included) and that veterans be given priority in the rent or purchase of new structures. He appointed Wilson Wyatt as housing "expediter" in the Office of War Mobilization and Reconversion and placed upon him the responsibility of initiating some action to increase the production of houses. He also asked for legislation authorizing the control of prices of new and existing houses.

Congress passed an act providing for \$160 millions to be spent in providing temporary housing for veterans by using the present demountable housing and other government-owned structures, such as barracks, and office buildings, which can be converted into residential dwellings.

The Civilian Production Administration placed a \$10,000 ceiling on new homes entitled to priority treatment for materials. This ceiling includes both house and lot. A rent ceiling of \$80 a month is placed on new homes for rental.

The Federal Housing Administration will administer the program and issue priority permits for brick, tile, gypsum board and lath, lum-

ber, millwork, cast-iron radiators, bathtubs, clay sewage pipe, and cast-iron soil pipe.

Rent controls have been successful in holding the rents on some 14 million dwelling units, and have tended to check runaway inflation in houses already built. But rents which are too low would tend to retard building for income purposes in the light of present construction costs.

The G.I. guarantee on loans has been increased from \$2,000 to \$4,000 to allow the returning veterans to purchase or build homes.

Governmental legislation can aid in solving the problems of housing by priorities, ceilings, and rent controls, and by releasing government surplus materials, but no amount of legislation can build houses until materials and labor are available.

Outlook for Housing

Despite the urgent demand for homes and the high prices offered for construction, the housing situation cannot be alleviated in the near future. No substantial increase in new construction of residential building can be expected until spring. Many construction organizations were not maintained during the war, and some time is required to assemble materials and manpower in order to obtain volume construction.

The *Survey of Current Business*, published by the United States Department of Commerce, reports that on a national basis many types of materials are being produced in increasing volume. Supplies of cement, structural steel, asphalt roof-

ing, hardware and metal products, and heating and domestic equipment are being produced in increasing quantity. But these materials may not be available in some localities, because of shortages and delays.

Supplies are critically short in certain basic materials, namely, lumber, cast-iron soil pipe, clay sewer pipe, structural tile, and gypsum lath. Special efforts to increase the production of these materials are under way, and some improvement is being made, but there may be an inadequate supply even in the spring. Production of most of these supplies was curtailed during the war, because of manpower shortages, and because they were not needed for some wartime construction. Time will be required to bring the production of these materials up to the rate required for greater construction.

In 1940 some 2,000,000 workers were employed in the construction industry, and the experienced labor force in this field was 3.5 millions. In that year some 600,000 housing units were constructed. To construct a million residential dwellings would require a much larger labor force, because a considerable number of workmen will be used in public and industrial construction.

The low rate of construction during the thirties did not allow the training of many new skilled workmen, and not many were trained during the war period. There is now a serious shortage of trained workmen in the housing industry. New men must be recruited and given apprentice training before the

labor supply will be adequate for a large increase in construction.

The value of residential non-farm construction in 1946 is expected to increase more than threefold over that of 1945. Surveys show that approximately 470,000 new dwellings will be started in 1946; this is three times the number in 1944.

During 1947 the rate of construction should be approaching one million houses a year, which would be the highest rate of construction in our history. It would be more than 10 per cent greater than the 900,000 houses produced in 1925, our greatest year of residential construction.

An analysis of our capacity to produce dwelling units shows that several years will be required to alleviate the housing shortage. Even if we are able to produce close to one million housing units in 1947, and to increase the rate of production thereafter, the deficit in housing cannot be closed for three or more years.

It is estimated that more than one million families are now living "doubled up" with other families. As more veterans are released, more will be forced to live with other families. Since the housing shortage cannot be alleviated for several years this condition will necessarily continue.

In view of this situation, (a) all families whose housing facilities are not utilized to full capacity should be encouraged to take in those who cannot obtain separate dwellings; and (b) wherever feasible, old buildings should be reconditioned for temporary housing.

Moreover, since all public construction will compete for materials and men with private construction, public construction unless *urgently* needed should be delayed until the housing situation can be eased.

From the viewpoint of economic stability public construction should be postponed so far as possible until the housing deficit can be brought into line with the need for homes. Then when private construction and

employment experience a depression, public construction can be increased to fill the needs for public purposes, and to maintain the level of employment and construction.

Our employment and production can be more nearly stabilized if we can plan our public spending far in advance, say for ten or twenty years, and fit it into the period of depression in private spending.

Employment of Veterans.—The veterans' employment problem is growing in magnitude daily. While not yet too serious, it promises to become so if strong efforts are not made to alleviate it. Certain immediate steps can be taken. Among these are better organization of agencies dealing with veterans, more adequate allowances to increase personnel for these agencies, and better education of both veterans and employers as to current employment conditions. In addition, a more realistic attitude with regard to veterans' rights under the G. I. Bill and other legislation is necessary. Abandonment of restrictive practices on the part of both labor and management should also be accomplished quickly. Finally, upward adjustment in wage rates for less skilled occupations and the opening up of new opportunities for the use of skills acquired by servicemen would be helpful.—From the *Monthly Review* of the Federal Reserve Bank of St. Louis, January 1, 1946.

Impact of Transition Problems.—In attempting to measure the impact of the reduction in war production upon the economy, several facts must be kept in mind. For example, the decline in total output—or total nation income—is from a level heightened by war pressures and secured through a much-larger-than-normal working force and longer hours. And, insofar as the dollar measures are concerned, this wartime level was effected by some distortion of prices which was bound to have been associated with the insatiable demands for military needs at whatever costs. This occurs notwithstanding price controls which, in retrospect, can be seen to have been generally successful, although it is well to remember that most of the inflation which was associated with World War I occurred after rather than during the war, when the then existing controls were too rapidly eliminated.—From *Survey of Current Business*, September, 1945.

Lower Income Taxes for 1946

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As was true in 1944, two new Federal income tax laws were enacted in 1945: the "Tax Adjustment Act of 1945" and the "Revenue Act of 1945." The former was approved on July 31, 1945, and the latter on November 8. Each of these consists of a series of amendments to the last complete income tax law, the "Revenue Act of 1938," or to provisions of one or more of the ten income tax laws enacted in the period from 1939 to 1944.

Mr. Robert L. Doughton, Chairman of the House Committee on Ways and Means, in introducing the tax adjustment bill, stated that the major purpose of the bill was "to facilitate reconversion by improving the cash position of business enterprises, and by relieving smaller businesses from some of the burdens of the excess profits tax." The report of the Committee indicated that the proposed law was designed to lighten the tax burdens of corporations rather than those of the individual taxpayer. However, the individual who is engaged in business as a single proprietor or as a member of a partnership is given a moderate amount of relief, particularly in those provisions of the act that relate to the prompt application of a "net operating loss" sustained in one year against the profits of the two immediately preceding years.

The second law enacted in 1945 is definitely designed to be a tax reduction law. Unlike most of its predecessors, it is not, in general, retroactive to the beginning of the year in which the law was passed. With certain minor exceptions its effects will be felt first in 1946; and most individual taxpayers will prepare their tax returns for the year 1945 in substantially the same manner and compute their tax at the same rates as for 1944. However, in the case of a fiscal year that does not coincide with the calendar year, a taxpayer will get the benefit of the tax reductions for the part of the fiscal year that falls within the calendar year 1946. Mathematically this is worked out as follows:

The tax on the year's income is computed at the 1945 rates and again at the 1946 rates. A fractional part of each tax is then computed, in accordance with the number of days of the respective calendar years included in the fiscal year. Thus, assume that a married taxpayer with one dependent has an adjusted gross income of \$4,500 for a fiscal year ending March 31, 1946. According to the optional tax tables his tax at 1945 rates is \$633, and at 1946 rates \$500. From April 1 to December 31, 1945, there are 275 days, and from January 1 to March 31, 1946, there are 90 days. The tax for the fiscal year will

then be the sum of 275/365 of \$633, or \$476.92, and 90/365 of \$500, or \$123.29, a total of \$600.21.

The revenue act of 1945 provides additional relief for members and veterans of the armed forces, and, so far as these persons are concerned, the relief provisions are retroactive. Active service pay received by members of the armed forces of the United States below the grade of commissioned officer or commissioned warrant officer, during taxable years beginning on or after January 1, 1941, will be excluded from gross income for the purpose of computing income tax until the present war is declared terminated by the President. If the tax on any part of this service pay has already been paid, it will be refunded or credited if an appropriate claim is filed.

The same law provides also that payment of any unpaid taxes for war years which are attributable to active service pay and "pre-service earned income" may be made in twelve quarterly installments beginning on a prescribed "first installment date." The first installment date for taxpayers released from active service before December 1, 1945, is May 15, 1946.

Rates of Tax Applicable to 1946 Incomes

The normal tax rate remains at 3 per cent. For 1946, however, the taxpayer will have the same credits against his income that is subject to the normal tax as against his surtax net income, namely, \$500 for himself, \$500 for his spouse if she has no income or if a joint

return is filed, and \$500 for each dependent. After a tentative normal tax has been thus computed, the tentative tax is reduced by 5 per cent thereof.

Surtax rates were each reduced for 1946 by three "percentage points"; i.e., the lowest surtax rate, formerly 20 per cent, became 17 per cent; 22 per cent became 19 per cent; etc. After a tentative surtax has been computed according to the new rates, this, likewise, is reduced by 5 per cent thereof.

The optional tax table for incomes under \$5,000 has been modified for the year 1946 to take into account the changes above outlined.

The withholding tables have been revised also, with the result that a substantially smaller amount will be withheld in 1946 from the pay check of every employee whose wages are subject to withholding.

It has been estimated that under the new law 12,000,000 former taxpayers will no longer be required to pay a Federal income tax. Many thoughtful persons have questioned the wisdom of relieving this large group of the necessity of contributing at least a small amount toward the maintenance of their government.

Review of the Various Procedures That May Be Followed in Preparing the Individual Return for 1945

1. A person whose income is derived entirely from wages, dividends and interest, and whose gross income from sources not subject to withholding does not exceed \$100, may, if he so elects, fill in certain

information called for on the withholding receipt given him by his employer, and mail the receipt to the Collector of Internal Revenue. In that case, the Collector will compute the tax, and will either bill the taxpayer for any additional tax due, or will notify him that he is entitled to a refund of taxes withheld in excess of the amount properly payable.

2. A person may use Form 1040, the regular individual tax return, filling in all items of taxable income and all deductible business expenses and losses. He will be obliged to distinguish sharply between those expenses which are related directly to the earning of income, and those deductible expenses which are purely personal. Total gross income minus business deductions gives "adjusted gross income." If the taxpayer chooses to use the "Tax Table" on page 4 of the 1945 return he will find the line corresponding to the adjusted gross income just determined, and the column corresponding to the number of exemptions he has listed on page 1 of the return. The tax will be there shown, and no further computation will be necessary unless a joint return of both husband and wife is being filed. In that case the tax found in the table must be reduced by three per cent of the smaller of the two incomes but not by more than \$15.

3. If after determining his adjusted gross income as above the taxpayer prefers to disregard the tax table and compute his tax in the ordinary way, he will transfer the figures for his adjusted gross

income to line 1 of page 3 of the return, enter his deductible personal expenses on that page, and subtract the total of these from his adjusted gross income. Using the net income thus ascertained he will compute his normal tax and his surtax in accordance with the step-by-step instructions there given.

4. If the taxpayer's adjusted gross income was \$5,000 or more, he cannot use the tax table. In that case he will carry the figures for his adjusted net income to page 3, and then choose between two possible procedures: He may either itemize his personal deductions and use the total of these in determining his net income; or use a so-called standard deduction of \$500 in lieu of the total of his actual deductions.

It is important to note that if husband and wife file separate returns, there are certain restrictions in the choice of the methods above outlined. (1) If one spouse details his personal deductions and computes his tax by the use of the ordinary method, the other spouse must follow the same procedure. (2) If one computes his tax by the use of the table, the other must also, unless her income is \$5,000 or more. In that case she may not use the total of her actual personal deductions but must use the \$500 standard deduction.

It will be observed that if separate returns are filed by husband and wife, it will be advisable to calculate (1) which procedure will result in the lower tax for the husband; (2) which will give the lower tax for the wife; and (3) which *permissible combination*

of procedures will result in the lowest possible total tax for the two taxpayers.

For example, assume that the adjusted gross income of A for 1945 was \$6,000, and that of B, A's wife, was \$3,000; that A's itemized personal deductions totaled \$550, and B's \$100; and that each had a normal and surtax credit of \$500. Under these circumstances they will file separate returns. If A uses the total of his itemized deductions, \$550, his tax will be \$1,235.50. If he uses the standard \$500 deduction, his tax will be \$1,250. So far as A alone is concerned, he would save \$14.50 in taxes by using the itemized deductions. However, if B computes her tax by the ordinary method her tax will be \$560. Computed by the use of the table, her tax will be only \$516, a saving of \$44. If A and B can settle the matter amicably between them, it will evidently be advantageous for the family for A to use the standard deduction and for B to use the table, and thereby enjoy a net combined saving of \$29.50.

Completing the Payment of Taxes for 1945, and Filing a Declaration for 1946

1. The taxpayer whose fiscal year coincides with the calendar year has presumably remitted to the Collector on or before January 15, 1946, either the last installment of his estimated tax for 1945, or the balance of his actual tax for 1945 that (1) has not been offset by a credit for an overpayment of 1944 taxes, (2) has not been withheld by his employer, and (3) has not already

been remitted as installments of his estimated tax.

2. On or before March 15, 1946, the taxpayer will file his complete tax return for 1945 and remit the balance of his actual tax, unless he did this on or before January 15, 1946.

3. If an individual's gross income from wages can reasonably be expected to exceed the sum of \$5,000 plus \$500 for each surtax exemption except his own, he must file a declaration on or before March 15, 1946, of his estimated tax for the year 1946. So also must the individual whose gross income from sources other than wages can reasonably be expected to exceed \$100 and whose total gross income is expected to be \$500 or more. One-fourth of that part of the estimated tax which will not be withheld by the employer must be paid when the declaration is filed. However, a person who derives two-thirds of his net income from farming is not required to file his declaration of expected income for the year 1946 until January 15, 1947, or to pay any part of the tax on his 1946 income before that date. But the entire amount of his estimated tax for 1946 must be paid on or before January 15, 1947.

Penalties for Failure to File Declaration or Pay Installment of Estimated Tax, and for Substantial Understatement of Estimated Tax

For negligence in filing a declaration or in paying an installment of the estimated tax when due, a penalty of 5 per cent is added to each

installment due and unpaid, plus 1 per cent for each month (except the first). The total penalty thus imposed is limited to a maximum of 10 per cent in each of the two cases. If the estimated tax proves to be less than 80 per cent of the tax as finally determined ($66\frac{2}{3}$ per cent in the case of farmers), a penalty is imposed, based on one of two alternative computations: (1) The estimated tax is deducted from the correct tax, and 6 per cent of the difference is computed. (2) The amount by which the estimated tax fell short of the required 80 per cent (or $66\frac{2}{3}$ per cent) of

the correct tax is found by simple subtraction. The smaller of the two results obtained by the computations thus described will be the penalty imposed for the "substantial underestimate."

If, however, an individual bases his estimate upon an amount of income at least as great as that of the previous year, and upon his status with respect to his personal exemption and credit for dependents on the date of filing his declaration for the current taxable year, no penalty will be imposed for an underestimate of the tax.

Fight Against Inflation. — Our fight against inflation in 1946 will be less difficult in some fields than in others. The supply of many nondurable goods, such as foodstuffs and wearing apparel, will probably increase rapidly enough so that by the middle of the year the danger of a rapid rise in the prices of these commodities may be past. The greatest danger of an up-bidding of prices exists in the field of durable goods, such as automobiles, housing, and durable equipment used in the home. It is unlikely that our supply of heavy durables will be sufficient to satisfy the domestic market for several years to come, and it will be necessary to enforce price ceilings. Rent controls also will be necessary for a considerable period. — From *Domestic Commerce*, January, 1946.

Cost of World War II. — The cost to the world of World War II, according to a survey conducted by the American University (Washington, D. C.) amounted to approximately \$230,000,000,000 in property damage and \$1,154,000,000,000 in expenditures for armament and war supplies. These figures exclude China, for which data were not available. Expenditures were estimated at \$317,600,000,000 for the United States, \$192,000,000,000 for Russia, and \$120,000,000,000 for the United Kingdom. For the Axis powers, the cost was about \$486,930,000,000, of which \$272,900,000,000 was spent by Germany. — From the *Commercial and Financial Chronicle*, December 13, 1945.

Significance of the Boehm Decision on Deductible Losses

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THE present Revenue Act provides that in computing net income for income tax purposes there shall be allowed as deductions losses sustained during the taxable year and not compensated for by insurance or otherwise. A person with a loss of tangible property which has been entirely or mainly under his control and observation should have no difficulty in determining the proper taxable year in which to list such deduction, if his loss is due to fire, flood, or other like disaster. In such cases, he should be able, usually, to fix the times when the particular asset had value and when it had become worthless, and to determine the full amount of his loss.

But the problem of fixing the proper taxable year may not be so easy if the assets in question are stocks, bonds, notes, or the like. The value of a particular asset of this type depends upon property not under the taxpayer's direct possession or observation, or upon the continued ability of persons not his employees or under his control. In some cases there is a possibility that a loss may occur which is not known to him. Suppose the asset is stock in a corporation which went into receivership in 1945, but the taxpayer is confident that business will improve and the company con-

tinue. Or suppose he owns stock in a company the value of whose corporate assets depends to some extent upon litigation which may not be determined for some years to come. Should the taxpayer in such cases list such possible loss as a deduction in his return for 1945, the time when he first may have had some bare suspicion that there was such a possibility, although he cannot fix any amount for his loss, and when, in fact, he may think there will be none?

Suppose it is a case of a promissory note issued in 1941, and payable to the taxpayer in December, 1945, which remains unpaid, and suppose that he has every confidence in the maker's ability and willingness to pay. Should the taxpayer list the obligation as a loss in his return for 1945, although the amount of his loss is only a matter of conjecture and, in fact, there may be none at all? Anyone who thinks that the taxpayer can wait until 1946 or some later year, and that he can list the loss in the particular year in which he does find definitely that he has suffered a loss, and when he can for the first time fix the amount thereof, can very well ponder over the decision of the United States Supreme Court, rendered in November, 1945, in the case of *Boehm v. Commis-*

sioner of Internal Revenue, 66 S. Ct. 120, 90 L. Ed. 96, hereinafter discussed.

Mrs. Lillian Boehm purchased stock in a certain company in 1929 for \$32,440. The company reported to its shareholders in April, 1932, that it was having financial difficulties. Receivers were named by a Federal court in June, 1932. Operations continued until May, 1933. The first report of the receivers, made to the court in August, 1934, disclosed that there would be no return to the stockholders on their shares, except possibly from a stockholders' derivative action, started in December, 1932, against some of the directors by Mrs. Boehm and the other shareholders, and based upon alleged waste, neglect, mismanagement, etc. This case never reached trial, but a settlement was consummated in February, 1937, whereby the defendants paid the plaintiffs a certain sum in full discharge of their claims and of their cause of action, that sum being such that, after payment of expenses, the share of Mrs. Boehm amounted to \$12,500, or about three-eighths of the cost of the shares. In making her 1937 income tax return, Mrs. Boehm claimed a deduction from gross income of \$19,940, the difference between \$32,440, the purchase price, and the \$12,500 received pursuant to the settlement. The Commissioner denied the deduction on the ground that the stock had not become worthless in 1937. The Tax Court sustained the action of the Commissioner, and Mrs. Boehm carried the matter to the United States

Supreme Court, which court in *Boehm v. Commissioner of Internal Revenue*, the decision mentioned above, sustained the action of the Commissioner in refusing the deduction.

The decision involved Sec. 23 (e) of the Revenue Act of 1936, which provided that in computing net income for income tax purposes there shall be allowed as deductions "losses sustained during the taxable year and not compensated for by insurance or otherwise." Treasury regulations in effect prior to and at the time of the adoption of the 1936 Revenue Act and repeated thereafter have interpreted Sec. 23 (e) to mean that deductible losses "must be evidenced by closed and completed transactions, fixed by identifiable events, bona fide and actually sustained during the taxable period for which allowed." The Supreme Court, in the decision, speaking of the regulations, stated that "such regulations being long continued without substantial change, applying to unamended or substantially re-enacted statutes, are deemed to have received Congressional approval and have the effect of law."

Just what was this taxpayer to do? In her income tax return for 1934 she had tried to claim a deduction for her loss, but the Commissioner denied the deduction on the ground that the stock had not become worthless in 1934. If it was not a deductible loss for the year 1934, then it was not a deductible loss for either 1935 or 1936, for the settlement of the derivative suit was not made until February, 1937, and the matter stood the same during

the years 1935 and 1936 as it was in 1934. If she could not have taken the deduction in any of the years 1934 to 1937 inclusive, then she should have claimed it in her return for 1933 or for a year prior to 1933. But how was she to determine whether she should have listed it in 1933, or in 1932, or in a prior year? The only difference in the facts between those of 1932 and those of 1933 was that operations of the company ceased in 1933. The only difference in the facts of 1932 and those of 1931 or of any prior year is that receivers were appointed in 1932. There is nothing in the language of the Supreme Court to indicate that the deduction should have been claimed in any one of these years rather than any other. And if she had claimed the deduction in 1933 or in any prior year, how was she to determine the amount of her loss when the returns from the derivative suit were a matter for the future to disclose, and were not, in fact, disclosed until February, 1937? And suppose that the allegations of the derivative suit could have been established and that the defendant directors were able and could have been compelled to pay in full the losses alleged to have been due to their negligence, etc. Could it not well be said that no loss had occurred until 1937?

If this taxpayer in good faith had confidence in the company in those earlier years, or in the outcome of the derivative suit and in the value of her shares, she would not have been the only one in those years who thought that prosperity was

just around the corner. Apparently, she acted honestly in not attempting to take her loss in a year prior to 1934. Then, should not her good faith have some value in determining the year in which her loss was sustained? Should not the taxpayer's opinion and honest belief as to when the loss took place be considered—in fact, should it not be one of the decisive factors? Why should the commissioner or his agents be in any sense better able to say when an item of property has become worthless than the taxpayer, the owner, who, in probably most cases, will know more about his own property and its prospects than the Commissioner or his agents can ever know?

In referring to the consequences of error and other difficulties confronting one who in good faith tries to choose the proper year in which to claim a deduction, the Supreme Court stated that "these difficulties are inherent under the statute as now framed. Any desired remedy for such a situation, of course, lies with Congress rather than with the courts. It is beyond the judicial power to distort facts or to disregard legislative intent in order to provide equitable relief in a particular situation." But would the Court have been distorting the facts, and would it have disregarded legislative intent, if it had reversed the Tax Court and the Commissioner and had permitted the deduction claimed in the 1937 return? That year was the first year in which the taxpayer's loss could be definitely ascertained, and, until the disposition of the derivative suit

in that year, there was a possibility that the recovery might have been such that there would have been no loss at all; hence, until disposition of that suit, it could not be said that the stock had become worthless, even in part. There was in fact a recovery of about three-eighths, and that in a voluntary settlement rather than in a final disposition of the suit based upon the merits of the action.

It would not have been a distortion of the facts if the Supreme Court had found that the stock had become five-eighths worthless in 1937, and had allowed the deduction, and such a decision would not have been in disregard of legislative intent. Certainly, it was the intent of Congress that one having a loss not compensated for by insurance or otherwise should have the right to deduct that loss in some one taxable year. It ought not to be a matter of concern to the legislative body, to the taxing authorities, or to the courts, if the taxpayer does deduct such loss in the particular year in which he honestly feels that his loss took place, just so that he does not claim more than his actual loss and does not claim it more than once. The Supreme Court need only to have adopted the test suggested, that of "the taxpayer's reasonable and honest belief as to worthlessness, supported by the taxpayer's overt acts and conduct in connection therewith." Had it done so instead of trying to impose a test which the taxpayer does not understand and cannot apply, it would have carried out the legislative in-

tent and would have promoted some confidence in the law.

The Supreme Court stated that the burden was on the taxpayer to establish that there was a deductible loss in 1937, but the burden placed upon the taxpayer should not be an impossible burden. One would normally suppose that the taxpayer should first fill out the items of his return, and that, after he has honestly and in good faith listed his income items and his claimed deductions, the taxing authorities should then point out any items which are wrong, and that they would not deem any of the items incorrect unless that is definitely the case. After the taxpayer has established that there was a loss of a certain amount, and that, in his honest opinion, it had occurred during the year for which he has listed it, one would assume that his finding as to the year of his loss should be accepted as final, if his interpretation of the situation was fairly reasonable and not visionary, even though that year might not be exactly the year in which the taxing authorities might regard the loss as having occurred. The taxing agency should not force its own judgment over the taxpayer's honest opinion so long as that opinion is fairly reasonable, is entered into in good faith, and is fairly consistent with the facts. Mrs. Boehm did meet the burden of proving that there was a deductible loss in 1937. She established that she had a loss, and she was absolutely correct in claiming the deduction in her return for 1937. She did establish definitely that it

did occur in that year and that the loss was a deductible loss under the statute.

The decision seems absurd. It deprived this taxpayer of a right which the Federal Congress intended that she should have. May not this have been just another case in which some subordinate Federal employee who had no particular qualifications for his work and who had had no business experience and had not studied law searched for possible defects in returns, found what he thought might possibly be an error, and held that this party was wrong? Perhaps his superiors in the agency neglected to examine carefully the taxpayer's case and the holding of their subordinate thereon. Is a finding of a governmental agency so sacred, although in error, that the Supreme Court of the United States cannot and must not correct the mistake?

The decision of the Supreme Court is unfortunate in that it leaves the taxpayer in a position where he must be able to foresee just what the taxing agent will do in deciding when a loss is sustained, and it gives no practical test by which one can guess what that agent may do. It penalizes the good faith, the honest intent, and the sincere opinion of the taxpayer. What he may believe as to his own property and its future is not to be considered, apparently. The decision can only leave him in a state of greater confusion and of greater uncertainty as to what he should do. It will not add anything to his confidence in the taxing authorities or in the judiciary. It will not in-

duce him to have any greater respect for the law. The court could have avoided this by applying the "good faith" test suggested.

Section 23 (e) of the Revenue Act now in force and the regulation concerning it read today substantially the same as they did in the years 1936 to 1938. The taxpayer today is confronted with the same dilemma as was Mrs. Boehm, if he has a like problem. Suppose that he had the debt due him in December, 1945, mentioned in the first paragraph hereof, which remains unpaid when he prepares his return for 1945, and suppose that he has every confidence in the debtor's ability and willingness to pay. Is the taxpayer justified in not including that debt as a loss for 1945, even though he considers it a good debt and expects to recover in full? Suppose he does not list it as a loss in his 1945 return and that by some disaster in 1946 the debtor becomes unable to pay, can the taxpayer depend upon being able to take the deduction in his return for 1946? There is nothing in the Boehm decision to warrant his having any confidence at all that he will be allowed to take the deduction then. He can be safe only by listing in his return for 1945, as a loss not compensated for by insurance or otherwise, any loss which he has any suspicion at all that he may suffer, even though he cannot foresee the amount, if any, of such loss, and, in fact, may not have any. The effect of the decision is to require that the taxpayer's foresight be superior to the Commissioner's hindsight.

Earnings of Small Corporations

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BEING in favor of small business is about as safe politically as being against sin, and is a far more popular position to take. The publicity chief of one of the war agencies whose gravy train is powered by the anti-big-business sentiment recently observed with approval that "There is no speech which a congressman can make which will draw more cheers from both sides of the house than one sounding the alarm against the trend towards the concentration of business into the hands of giant enterprises."

Since this concern for the welfare of small business enterprises is a factor in the determination of the provisions of all legislation affecting business, and since some proposals for special aid to small business are under Congressional consideration almost continuously, it is pertinent to examine the general question of the social desirability of defending small businesses against the aggressions of large firms, and the related question of whether comparative earnings data of small and large business firms indicate that such defense is necessary.

A great deal of the enthusiasm for small business springs naturally and genuinely from the deeply ingrained desire of Americans for the independence and freedom af-

forded by being one's own employer. Though such independence is seldom realized in the life of most workers, the presence of the opportunity for some to enter the entrepreneurial field does contribute to a general feeling of freedom.

Need for Small Business

The preservation of small business, in at least the proportions remaining after several decades in which concentration of the nation's production into the hands of a relatively small number of giant firms proceeded at a rapid rate, seems to be a requisite for the attainment of certain additional social goals. Small business remains today, in spite of the million-dollar laboratories of the industrial giants, the proving ground for many new products, new technologies, and imaginative, vigorous entrepreneurial talent. In fact, many of the claims for the long-run excellence of the free enterprise system as against socialism rest upon the implied assumption that a large part of the privately owned enterprises will continue to be sufficiently small that many, instead of few, workers will be stimulated by the profit incentive to improve products and productive efficiency. Close personal relationships with employees will help to avoid the impersonal rigidity of rules of employment which creates

class consciousness and makes the billion-dollar enterprise akin to a socialist bureaucracy.

Finally, the continued existence in every community of a large group of middle-class business owners and managers lends a stability to our social and political institutions which seems essential for orderly evolution of those institutions. Many may disagree, but such stability, even with its "cultural lag," seems preferable to the rapid rate of "progress" attained when the middle class disappears and social change appears in the form of a race to see whether fascism can freeze the institutions of capitalism before communism takes over.

Basically, the continued well-being of small and middle-sized business firms depends upon the existence of conditions which will enable a large proportion of them not only to survive but also to grow in size if economical operation in their industry demands a larger size. The profit opportunities must also be sufficient to attract new enterprises to replace those passing out of existence because of such factors as the retirement of owners or failure to operate efficiently.

Furthermore, in the long run, small businesses must make a rate of profit which approximates that of the larger firms; or a condition will be present which will tend toward a further gradual shifting of our manufacturing and merchandising activities into the hands of the giants. If this should happen, the former owners of the small firms would allow their establishments to pass through a capital-

consuming stage, and larger and larger proportions of each succeeding generation would find their life-work in the employ of the larger corporations.

That industrial concentration has gone on at a rapid rate in the last three quarters of a century is patent. The following data, compiled by the United States Department of Commerce from internal revenue statistics, will serve to illustrate the degree of concentration attained immediately prior to World War II. The largest 5 per cent of all nonfinancial corporations owned, at that time, 86 per cent of the assets of all corporations, whereas the next 20 per cent owned 10 per cent, and the smallest 75 per cent owned only 4 per cent of the assets. If concentration is measured in terms of net income and only those corporations with net income are included, the proportions are approximately the same. In terms of employment, the largest 5 per cent of all firms, corporations, and unincorporated businesses, taken together, had 70 per cent of the employed workers. The next 20 per cent had 18 per cent of the workers, and the smallest 75 per cent had 12 per cent.

During the war there was a considerable increase in industrial concentration under conditions which would indicate that it was not permanent. Methods of distributing war production contracts, labor shortages, materials priorities, the drafting of the owners of many small firms, and the fact that our great increases in production were not in those lines in which the product

moves through retail outlets where much of small business is located, all contributed to the decrease in the number of small firms.

It is confidently believed that a return to more normal conditions of production will reverse this trend sufficiently to offset at least the wartime increases in concentration. The presence of large amounts of liquid assets in the hands of the public and the provisions for business loans to veterans may even cause an increase not only in the number of small businesses but also in the proportion of the total business done by them as compared with the immediate prewar years.

But in the long run, the relative profits positions of firms of different size will play a major role in determining the survival probabilities of the small firms in the various industrial divisions. Some of the highlights of a recent study of the relation between corporate size and profitability undertaken by the present writer for the United States Department of Commerce are presented herewith for the light which can be shed upon the survival possibilities of small business. (See *Survey of Current Business*, May, 1945, and January, 1946.)

In this study the data of corporate earnings were used for the simple reason that no other data are available classified by the size of firm and presenting the detailed information which is necessary for a thoroughgoing analysis. Unincorporated businesses are believed to be fairly represented, however, in the conclusions given below.

Depression and Small Business Profits

The relative profitability of small, medium-sized, and large firms depends largely upon the level of production and employment in the country. In depression it is generally true that size and profitability are very closely correlated. The smaller firms sustain the greater average rates of loss (on owners' equity), and each succeeding larger-size group sustains a smaller rate of loss or enjoys a greater profit.

For instance, in 1932, the poorest year of the late depression, corporations having assets of less than \$50,000 sustained losses averaging 33 per cent of the owners' equity. Those with total assets between \$50,000 and \$100,000 suffered average losses of 14 per cent. Each successively larger group had a lower rate of loss than the one immediately below it in size, and the largest—firms with more than \$50,000,000 in total assets—managed to obtain a positive profit of $\frac{1}{2}$ of 1 per cent.

As the national income rose slowly in the middle and late thirties, and more rapidly after 1939, this picture changed radically. That average profits for corporations of all sizes increased with the return of prosperity (to 5, 7, 12, and 17 per cent in 1939, 1940, 1941, and 1942, respectively) was to be expected.

What is more significant for present purposes is that the relative positions of small, medium, and large corporations also changed. So consistently and so closely are the relative profits positions of these

three groups related to the volume of business activity that the following statement based upon our experience in the years 1931 to 1941 inclusive can be made. From any level of national income, an increase in business activity results in an improvement in the earnings of smaller corporations relative to the earnings of the next larger class throughout the size range. Conversely, a decrease in industrial activity results in a worsening, profitwise, of each size group relative to the next larger group.

Translated into absolute levels of profit rates on equity, this means that firms in the medium-size range (roughly from $\frac{1}{2}$ to 5 million dollars in assets), which were several points below the 100-million-dollar firms in profit rates at the bottom of the depression, not only caught up with the giants in rate of profit on equity but far outdistanced them. By 1941, for instance, the corporations with about one million dollars in total assets averaged 15 per cent profit on stockholders' equity, whereas the firms with more than \$100 millions in assets earned only 9 per cent. If the less profitable finance corporations are excluded from the total, the profit rates for the same classes were, respectively, 20 and 11 per cent, a nine-per-cent difference. For the same group, all corporations except finance companies, in 1942 the difference had become 13 per cent, the million-dollar corporations earning about 27 per cent and the 100-million-dollar giants, 14 per cent.

In manufacturing in 1942, our first war year, the optimum size

seemed to be $\frac{1}{2}$ to one million dollars in assets, these corporations earning an average of 40 per cent before taxes. This is to be compared with the 17 per cent profit of the manufacturing firms which had over 100 million dollars in total assets.

Although it is not true of every industrial group that the corporations with about one million dollars in assets are the most profitable, yet for all combined, and for many of the separate industries, this is true.

Great though the depression-prosperity improvement of the million-dollar corporations was, it was exceeded by the relative improvement of the corporations of smaller size. True, they had farther to go after 1932 to get out of the red and never attained equality with the medium-sized corporations in rate of profit on equity, but the improvement from a 33 per cent average loss in 1932 by the corporations with less than \$50,000 in total assets to average profits of 3 per cent in 1941, and 9 per cent in 1942, exceeds the depression-prosperity swing of any other size-group.

Officers' Compensation

But the whole story of small business earnings is not contained in the statistics given above. Small corporations exist as much to furnish employment and pay salaries to their owners as to earn profits and pay dividends. Furthermore, about one-half of all corporations with less than \$250,000 in total assets are owned in their entirety by a few men who are officers and also

workers and entitled to compensation for their services. There being very little outside stock interest to serve as a check on the amount of their salary, a good share of what should properly be called profit is thus absorbed in salary increases in prosperous times. Since the statistics of corporation income are compiled from the tax returns as filed, disallowances of salary expense claimed for officers do not affect the published data. Hence the profits of small corporations are understated when presented without adjustment

to allow only a reasonable salary to the officers of the more profitable small corporations.

The statistics of profits of small corporations presented herewith (See Table I) have been adjusted to a basis which makes them comparable with those of the medium-sized and larger firms by limiting deductions for officers' compensation to the market value of the services rendered to the corporation.

If, then, we examine the relative increases in profits of small and

TABLE I

ADJUSTED CORPORATE NET PROFITS BEFORE TAXES: PERCENTAGE OF EQUITY,
BY INDUSTRY GROUPS AND BY ASSETS-SIZE CLASSES

Total assets class (thou- sands of dollars)	Year	All in- dustries except finance	Manu- fac- turing	Public utilities ¹	Whole- sale trade	Retail trade	Service	Finance, insur- ance, and real estate ¹	Con- struc- tion
Under 50.....	1939	-3.4	.8	-2.1	7.4	-5.5	-1.4	-9.6	.6
	1941	14.7	21.1	7.7	32.1	9.4	21.0	-8.9	27.4
	1942	19.5	25.2	15.1	33.3	14.0	28.7	-5.5	34.0
50-99.....	1939	4.6	7.0	7.8	8.8	2.9	5.8	-1.2	6.0
	1941	18.2	23.3	13.3	24.3	15.3	16.1	— .1	29.9
	1942	20.0	26.2	19.1	25.0	14.6	19.7	2.1	35.9
100-249.....	1939	6.0	8.4	11.6	9.0	4.5	4.7	.8	4.8
	1941	19.6	25.4	15.4	24.0	17.6	10.8	.9	28.0
	1942	22.4	28.5	20.4	24.9	17.7	17.6	3.2	39.8
250-499.....	1939	7.3	8.8	10.7	9.6	5.8	6.2	.1	5.5
	1941	20.0	25.2	18.7	22.6	16.5	11.0	1.8	26.4
	1942	23.8	30.2	22.4	23.8	19.6	19.4	3.2	41.5
500-999.....	1939	7.8	9.2	8.2	9.8	5.8	6.6	.1	5.0
	1941	20.3	25.0	14.3	22.6	16.1	10.6	1.9	25.7
	1942	26.0	31.9	20.9	24.7	21.6	19.6	3.1	39.0
1,000-4,999....	1939	8.2	9.8	6.6	9.8	7.7	5.4	2.5	8.3
	1941	20.2	25.0	12.0	22.5	16.5	10.3	2.1	25.4
	1942	26.7	32.1	16.7	24.8	23.0	16.2	4.3	45.0
5,000 and over..	1939	6.2	8.5	3.9	6.8	10.4	3.8	3.8	14.2
	1941	14.3	20.6	6.4	15.8	16.7	6.4	4.0	26.3
	1942	17.7	23.1	10.9	21.5	20.0	13.5	9.7	39.6

¹ Adjustment involved no change in the reported profit.
Source: *Survey of Current Business*, January, 1946, p. 12.

medium-sized corporations in the transition from the depression low of 1932 to the peacetime high of 1941, bearing in mind the important part played by officers' compensation in determining the profitability of the small firms, it becomes clear that a high level of employment and income is a vital necessity to their survival.

In the category of the smallest firms, corporations having assets of less than \$50,000 each, the average losses sustained in 1932 were greater than the amount of officers' salaries. In other words, if all the owners had donated their services, their companies would still have sustained losses of 7 per cent.

This is particularly significant when it is realized that in firms of this size the officers constitute about a fifth or a sixth of the labor force in number when employment is high, and are usually compensated at a higher rate than the other laborers. The small firms' losses in the depth of the depression, then, were equal to about one-third of the labor cost. But by 1941, profit and officers' salaries together amounted to a satisfactory 46 per cent of owners' equity for the firms with less than \$50,000 in total assets.

In terms of dollars per firm, the typical corporation in the group with assets less than \$50,000 has about \$22,000 of assets. The owner contributes about \$8,000 to \$10,000 of his own funds in the form of equity capital and works full time alongside of hired labor. For his capital contribution and a full year of labor he sustained in 1932, if he was typical, a loss of about \$600.

In 1933 he gained a net \$500. By 1939, his total return for the use of his capital and labor was up to \$2,200, and by 1941, it was up to \$3,200. If finance corporations are excluded, the total income from his business was up to \$4,000 in 1941, an improvement from the average of \$2,600 for this group in 1939.

Thus it can be seen that the maintenance of a high level of national income and industrial activity is a critical factor in the life of the smaller firm. The \$2,600 average total income of the owners of firms with less than \$50,000 in assets in 1939 is clearly inadequate as a return for the risk of \$8,000 to \$10,000 of one's own capital plus a full year of labor. Yet that was the average return for nonfinancial industries in a year which was typical of the last half of the 1930's and was much better than the first half of the decade. But with increased employment and production in 1941 this return was increased to \$4,000, an amount which would come much closer to providing the incentive necessary to bring about continued small-firm investment to replace those retiring from the field because of age of the proprietors, obsolescence of the product, or outright failure.

Profits in Different Industries

The over-all pattern of profits by size which has been described does not prevail in every one of the industrial divisions or in the separate industries composing the broad divisions. In fact, there are almost as many patterns as there are industries. Some of the most distinc-

tive of these patterns are worthy of note.

In retailing, profits were very low among the small firms in the prewar years. The unemployment of the 1930's had led many people to become entrepreneurs in this field, which to the novice seems to be the easiest to enter. The larger firms in the field, department stores, and the chains make relatively better profits in depression. Inasmuch as the great increases in production occurring during the war did not move through retail channels, profits of small retailers did not increase as much as the profits in most other fields of small business, and so the pattern of greater profit rates among the large firms and lower rates to the small firms continued.

Strangely, wholesale trade offers a picture which is the reverse of that in retailing. The smallest wholesalers made profits in 1939 very closely comparable with those of the medium-sized and large firms. In 1941, the highest profits went to the small firms and the lowest to the largest, with a continuous gradation between the extremes of size.

In the service industries, such as hotels, laundries, garages, theaters, etc., small firms predominate. This is to be expected, since the product is an intangible service which cannot be shipped, stored, or produced in a central location. Also, the product is one for which the income elasticity of demand is rather great. That is to say, as income payments to individuals rise, their demand for the product of the service industries increases more than in

proportion to their income rise. Consequently, the small laundries, theaters, etc., have a considerable prosperity-depression swing in profits. All the incorporated service firms with less than \$50,000 in total assets suffered average losses of 1 per cent in 1939 but their net profits rose to 21 per cent in 1941. In the latter year, they and the next larger group—\$50,000 to \$100,000 in assets—earned the highest average rates of profit in the industry. War-time profits in some branches of the service industries were very large, especially among the small firms. For instance, 69 per cent was earned on equity in 1942 by theaters with less than \$50,000 in assets; the next larger group earned 36 per cent, and those theaters and theater chains with more than \$5,000,000 in assets earned only 17 per cent.

In those subdivisions of the public utilities group in which demand is not subject to great variation from prosperity to depression, the smaller firms do not do so well as the medium-sized concerns, which, in turn, earn higher profit rates than the very large ones. But in such phases of public utilities as taxicab operation and highway freight transportation, profits and size of firm are inversely correlated throughout the size range. That is, the larger the firm the lower the profit rate. For instance, in 1942 the taxicab companies in the smallest size-class earned over 100 per cent on equity, whereas those with more than \$250,000 in assets averaged only 28 per cent. Among the trucking and storage companies, 27 per cent was earned by the smallest and only

10 per cent by those with more than \$5,000,000 of assets, the gradation in profit rates in the size groups between the extremes being continuous.

In the manufacturing division as a whole, given a moderate prosperity, the firms with less than \$100,000 in assets and those with more than \$100,000,000 can be expected to average a lower rate of profit than those between these extremes.

Several of the separate industries composing the manufacturing division are characterized by a large number of small firms. In this group the small firms make the better rates of profit unless serious depression conditions prevail. Included in the small-firm industries are non-alcoholic beverages, cotton manufactures, woollens, knit goods, dyeing and finishing of textiles, men's and women's clothing, and the tanning of leather.

At the opposite extreme are the heavy industries and all the extractive group (manufactures depending upon extraction of a natural resource). These industries are characterized by a very high degree of concentration and a low average profit to the small firms which do exist.

But it is also possible to recognize a large group of manufactures in which most of the productive units are small, but in which the marketing process is so important that those large firms which combine small productive units into one firm and spread marketing costs over a large output are able to exceed the small firms in profits. Food and tobacco are the principal groups

of this type. The large firms market their product under a well-established consumer's brand and in both prosperity and depression are able to obtain a very satisfactory rate of profit. The small firms, on the other hand, are likely to be among those which cannot maintain a profit margin at all in depression.

In summary, as the various industrial areas are examined for the purpose of comparing the profit rates of small and large firms in prosperity and depression, it becomes apparent that there are a large number of areas in which small business is definitely superior as a profit getter, and many others in which the smaller firms are on a par with their larger competitors.

In any case, the maintenance of a high level of business prosperity is a most critical factor in sustaining their rates of profit and enabling them to continue in existence in competition with larger firms.

Dispersion of Earnings Rates

The discussion of corporate profits to this point has been in terms of average profits for the firms composing an asset size-class in the industry under consideration. The meaning of a given average profit rate may be different for a group of corporations with less than \$50,000 in total assets than for a group with \$1,000,000 to \$5,000,000, or even larger. The basic need for a difference in interpretation derives from the fact that the dispersion of earnings rates is greater among the small corporations than among the large.

For instance, in 1942 the poorest 25 per cent of the corporations with assets of less than \$20,000 sustained average losses of 41 per cent, whereas the best one-fourth earned profits of 88 per cent of the stockholders' investment. As the next larger classes are examined for the dispersion of earnings rates it is observable that the dispersion becomes less and less with increases in the size of the firms. Among the corporations with total assets between \$100,000 and \$250,000 the poorest 25 per cent averaged 1 per cent profit and the best 25 per cent averaged 53 per cent profit in 1942. In 1941, before the beginning of conversion for all-out war, the dispersion of profit rates was about the same.

Several factors account for this greater dispersion of profit rates among small firms. In the first place, many large companies are composed of a number of subsidiary companies or a number of establishments or, at least, produce a diversity of products. They are thus able to offset losses against profits and seldom report great loss or great profit.

Second, it should be recognized that in the process of bringing their companies to large size, managements must of necessity demonstrate their ability to manage efficiently, to produce an acceptable product or service, and thus to avoid great losses. In other words, at any point in time the large companies are those that survived because they were the most efficient profitwise of all the small companies of some previous decade.

Such efficiency tends to persist in the life of the company and accounts, in part, for the negligible number of large companies which sustain great loss in any one year.

Finally, although there are many exceptions to the rule, the prospect of a relatively stable demand for the product or service of a particular company is an almost indispensable condition for the aggregation of large amounts of capital. That is to say, in certain industries characterized by extreme concentration of capital the stability of demand for the product was a significant factor in encouraging the concentration.

On the other hand, the smaller-size classes are populated with both efficient and inefficient firms. Many of the former are on their way to becoming million-dollar enterprises, having achieved a degree of relative profitability not matched among the industrial giants.

But among the less efficient firms of small size are many that are operated by an uninformed management or with inadequate capital. Some were organized to exploit a natural resource, since depleted. In many instances small firms are limited in life to the active career of a single individual and pass through a stage of capital consumption before discontinuance. Again, local markets may shift, or obsolescence of product or process may induce a period of capital consumption and eventual discontinuance.

A dynamic economy requires that a large number of the small businesses in operation at any one time fail and pass out of existence. So-

cial economy, on the other hand, requires that assistance be rendered with a high degree of discrimination to a portion of those operating with inadequate capital and with uninformed managements.

Small Business Policy

Government policy with respect to taxation favors small business at present. Graduated corporation income tax rates and the absorption of corporate profits in the compensation of officers of closely held small firms now tend to equalize profits rates, after taxes, between the small and large corporations. In fact, during the war when the high excess profits tax with its specific exemption of \$5,000 was in effect, it was a rare industry in which the average rate of profit of the large firms after taxes was greater than that for the small firms.

Further aid to small business is being proposed to Congress from time to time. One program includes

the provision of equity capital through government purchase of preferred stock in small corporations, the stock to be retired according to a suitable plan. Such a program would have to be hedged about by restrictions, inspections, and many controls to prevent a feed-trough scramble for the opportunity to become self-employed with public funds. It would undoubtedly provide the means whereby many a good idea would find development in the business world by a skillful entrepreneur, but it would, at the same time, subsidize and preserve many an inefficient business which should properly go out of existence. And, in the process, many of the satisfactions that derive from the unsupervised control of one's own business would be lost.

In conclusion, it may be observed that given a reasonably high level of production and employment in the nation, the plight of small business is not so desperate as many would have us believe.

Effects of Declining Interest Rates.—The continued decline in interest rates, from levels during recent years already around all-time lows, has effects upon the national economy and the lives of millions of people too serious to be ignored. It is raising the cost of life insurance and reducing the income of savings depositors, trust beneficiaries, and religious, charitable and educational institutions. Insurance policyholders and investors are penalized both by lower yields on new investments, and by successive refinancing of old holdings at reduced rates. The problem faced by investors is highlighted by numerous cases of corporations which during the past few years have refunded 4s to 5s with bonds now yielding $2\frac{3}{4}$ per cent or less.—From the February letter of the National City Bank of New York.

Bases for a Foreign Trade Policy

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MANY discussions center upon the role of international trade in the postwar period. The exigencies of war have emphasized the value of trade in securing strategic and critical materials for production and have revealed numerous techniques of economic warfare for keeping the enemy from vital commodities. No less important is the potential significance of trade in the period of reconstruction and peace.

Estimates of the future level of our exports and imports predict totals somewhat above those attained in the late twenties, when our exports averaged \$5,000,000,000 a year, and our imports \$4,000,000,000, at a time when annual world trade was valued at about \$64,000,000,000. Even if the more optimistic forecasts are not realized, foreign trade can make a definite contribution to the postwar economy.

Basis for Trade

A nation tends to specialize in the production of those commodities for which its natural and human resources are best suited. World trade is the result of this international division of labor, whereby a nation sells abroad goods and services in which it has a comparative advantage and buys from other nations goods in which they have a comparative advantage. In peace or in war the products in which a region spe-

cializes are constantly changing with world economic development, and these new raw materials and finished products enter the channels of trade.

War institutes many sudden modifications in production. The industrialization of agricultural areas is often accelerated by wartime conditions as, for example, the expansion of textile manufacturing in some parts of South America and the British Empire during World War II. The growth of manufacturing modifies the nature of export and import trade, in that goods formerly imported can be produced domestically and new products can be exported. World-wide adjustments in the flow of goods are necessitated. The attitude toward trade controls of the areas affected is altered. New manufacturing regions usually seek protection for their infant industries.

Conditions Affecting Trade

A brief consideration of some principles fundamental to international commercial policy can be used as a basis for evaluating commercial practice. Certain conditions stimulate trade; others hinder it. Trade is usually encouraged by multilateral relationships between nations and discouraged by bilateralism. The former relates to trade among many nations, the latter to trade between two nations. When com-

modities are exchanged from a multilateral point of view, there is comparative freedom of buying and selling with respect to source of goods, so that if one country buys more from a second country than it sells, it can pay the difference with credits secured by selling more to a third country than it buys from that country. Bilateral balancing, on the other hand, is an attempt to equate exports and imports between pairs of countries only. Commerce is hampered when nations grant special trading privileges confined exclusively to the negotiating countries, and attempt to channelize their trade along lines determined by bargaining arrangements rather than by specialization according to the principle of comparative advantage.

Discrimination frequently leads to retaliation, but trading with all nations on a basis of equal treatment is likely to stimulate goodwill. Traditionally, the most-favored-nation clause has been included in commercial agreements to provide for equality of treatment. When this clause is used, a country grants to every other one with which it has most-favored-nation relations any favor which it grants to a third country either unconditionally, that is, without restrictions, or conditionally, upon receipt of a similar favor in return.

Restrictions to the flow of goods discourage trade. These include a high protective tariff, a quota system limiting the amount of goods entering a country during a given period of time, excessive customs formalities, and indirect protection

made possible by administrative interpretation of trading regulations. Customarily, most-favored-nation treatment has been applied to tariff duties, but within recent years an effort has been made, though not always successfully, to extend it to these other devices. The determination of an equivalent concession and the establishment of a standard for fair treatment become increasingly difficult as new restrictions multiply.

Foreign Exchange

Trade is complicated by the fact that nations have different monetary units. When goods are paid for in another country's unit, it is necessary to convert the currency of one nation into that of another. To simplify this procedure, the rate of exchange must be stable. If the conversion rate is subject to violent and unpredictable fluctuations, trade is uncertain and sporadic since in each instance the exporter or importer must decide whether it is to his advantage to sell or buy immediately or to wait until the rate has reached another level in the future. If fluctuations in the conversion rate are held within narrow limits, one of the trader's risks is reduced.

Exchange is not available for purchase unless a supply has been built up by selling goods or services abroad or by borrowing. A country's international receipts and payments should, of course, be equal over a period of time. When these are out of balance repeatedly, there will be too little exchange in some countries, too much in others. This is what happened in the years be-

between World Wars I and II, when agricultural and industrial production, long- and short-term capital flow, and the movement of gold were distorted and abnormal. During World War II some countries found it necessary to conserve their scarce exchange for transactions contributing most to the war effort by issuing licenses in accordance with priority ratings. War-stimulated manufacturing regions may choose to continue foreign exchange control after the war in order to assure the allocation of their exchange for capital goods and machinery.

Payment for goods and services in foreign currency can be deferred in periods of stress. A few countries, for example, gave blocked domestic credits for goods sold to them during the war. The problem of liquidating and settling these accounts remains.

Trade Related to Foreign Investments

Trade is not an isolated phenomenon. It is closely related to the movement of foreign loans and investments. A young borrowing nation usually has an unfavorable balance of trade—that is, its merchandise imports exceed its merchandise exports—until it begins to pay out more in the form of interest and principal than it receives in new loans. At this time its trade balance becomes favorable. An immature lending nation, on the other hand, has a favorable balance of trade until it receives more on interest and principal account than it lends out in new loans.

Most nations of the world are in one phase or another of the investment cycle, although not all pass through every one of the stages in the course of their history. One of the significant changes occurring at the time of the first world war was the meteoric rise of the United States from a debtor position to that of an outstanding creditor nation. In recent war years we have maintained a creditor balance on long-term loans, but the debtor balance on short-term investments has been sufficient to classify us temporarily as a net debtor.

The modification of Great Britain's mature creditor status during World War II has been spectacular. For decades, Great Britain had an unfavorable balance of trade and made up the difference between exports and imports in part by dividends from foreign investments. The cashing of overseas investments during the years of recent conflict has left her with insufficient returns to balance accounts. There are several ways by which readjustment can be sought, but one important possibility is greater emphasis upon exports. Sale of goods in foreign markets may enable Britain to pay for her postwar imports. The revamping of Great Britain's international balance of payments is significant not only because of its effect upon her, but also because of possible repercussions upon other nations as well.

Modern trade is dependent upon many subsidiary agencies. Well-developed means of transport and smoothly functioning port and terminal facilities for loading, unload-

ing, and warehousing goods assist trade. Land and sea carriers have hauled the bulk of the cargoes in the past, but air transport is assuming a position of increasing importance, particularly for high-value, light-weight articles and those which are perishable, or are dependent upon speed in delivery. Landlocked cities, as well as ocean and river ports, are becoming important distribution centers for international commodities. Airplanes frequently do not follow established shipping lanes. Thus new shipping routes are developed and new points of entrance and embarkation brought into prominence as methods of transportation change.

Importance of Trade

External trade has a decided impact on the economies of many countries. Peacetime imports are about twenty-five per cent of Canada's national income, and exports twenty-nine per cent. Comparable figures for the Netherlands are forty-four per cent and thirty-eight per cent; for Norway, sixty per cent and sixty-four per cent. At first glance our foreign trade might seem unimportant since exports are only about six per cent of our national income, and imports slightly less. This, however, is not the case, for even these comparatively small percentages are large from an absolute point of view, and include the products of firms which depend to a marked degree upon foreign trade for their existence.

Imports furnish raw materials basic to modern industry and semi-

processed and finished goods which are specialties of the producing regions. Exports, by providing wide markets, help the exporting nation to have an economy geared to a high level of production. Economic activity in the exporting country furnishes the motivation for imports from abroad and increases the sales made by foreign countries, aiding in the maintenance of a high level of production there.

Trade influences and is influenced by economic conditions in every part of the world. In this way prosperity, or depression, may spread through commerce from one nation to another. Prosperity contributes to the establishment of peace. Depression increases the possibility of war.

Postwar Commercial Policy

If we would expand our trade in the future, we must formulate our commercial policy carefully, foster those conditions which stimulate trade, and attempt to remove those which hinder it. Our policy must be adequate to cope effectively with ever-changing conditions. It must be flexible enough to meet the emergencies of the reconversion and rehabilitation period and the long-time trends of the years beyond. Since our exports and imports are closely related to every other item in our balance of international payments, our trade policy must be drawn up with full cognizance of all our international receipts and payments, whether they be on merchandise, capital, transport, or other account, and be adjusted to them. Our policy should accommodate

more than just the exportation and importation of commodities, and it should be consistent with our domestic economic policies.

Our aims for the postwar period envision rising standards of living at home and abroad, gainful employment for those seeking work, and a durable peace. These are goals which men have long desired. They cannot be reached quickly or easily. Improved technology makes possible the production and exchange of vast quantities of material goods and provides more leisure time for using these goods and for satisfying non-material wants. But the reverberations from widespread unemployment and depression multiply with the ever-increasing complexity of modern production and trade. Even propitious economic conditions, however, are not enough to assure a healthy international commerce. Political stability is also necessary. Countries beset by political insecurity focus attention upon internal matters, attempt to become self-sufficient, and erect barriers to trade.

In the first decade of the twentieth century, trade was carried on by individuals, and the statement that nations were trading with each other meant then that a person or private firm in one country was selling to a person or private firm in another country. This customary trading practice was modified in the postwar period. State monopolies and buying agencies were adopted in some countries for certain commodities, and one country, Russia, made foreign trade a monopoly of the national government. Govern-

ment purchasing and selling missions assumed greater prominence during World War II. The degree to which governments participate in the trade of the future will fundamentally affect the pattern of world trading relationships. Far-reaching decisions must be made concerning governmental attitude toward international agreements for control of raw materials and finished commodities and the establishment of customs unions or regional agreements among blocs of nations.

Some Recent Provisions Affecting Trade

To deal with the intricate economic problems of the postwar period, we have adopted several legislative measures. Among these may be mentioned the renewal of the Reciprocal Trade Agreements Act. This provides for the negotiation of bilateral agreements in which United States tariff treatment of specific products is modified in return for a lowering of trade barriers by the other negotiating country. A maximum duty change of fifty per cent from the rates existing on January 1, 1945, is prescribed. Since June, 1934, when the reciprocal trade agreements program was instituted, the United States has completed agreements with twenty-seven countries.

Concessions received by us in these agreements include reduced tariff duties, duty and free-list bindings, increased quota shares, definite purchase commitments by state monopolies, the removal of special luxury, monopoly, and other fees,

and adjustments of preferential trading arrangements. Britain has permitted some products to enter the mother country from empire nations at preferential rates; in our agreement with her, certain of these rates were modified. We have granted concessions in the form of tariff reductions or bindings and free-list bindings. A binding freezes the pre-agreement rate for the duration of the agreement. Concessions are not maintained as exclusive favors but are generalized to other countries on the basis of most-favored-nation treatment. In this way agreements change existing trade restrictions and serve as a stopgap measure to retard the growth of new barriers. An international conference to discuss restrictions on trade and proposals for the expansion of world trade and employment is contemplated.

The United States recently increased the lending authority of the Export-Import Bank, and approved the Articles of Agreement of the United Nations Monetary and Financial Conference. The Bretton Woods Agreements propose an international monetary fund and an international bank for reconstruction and development. The purpose of the fund is to promote exchange stability and international monetary cooperation, and that of the bank is to facilitate foreign investment for

production by guarantee of, or participation in, long-term loans by private investors.

Other conferences have been convened to discuss problems with an international scope. A conference on food and agriculture considered consumption levels, production, marketing, and related matters. A world civil aviation conference discussed safety regulations and the freedom of passage and landing of carriers. An economic charter to help safeguard the economies of the American nations in the period of transition from war to peacetime conditions was adopted by an inter-American conference. The United Nations organization, founded for the purpose of maintaining international peace and security, made provision for coordinating action on international economic problems.

How well these and other activities will assist in the establishment of a stable background for international economic relations remains to be seen. Alternative methods are always available for reaching any goal, and a selection of procedures must of necessity be followed by unforeseen consequences. Whether or not most of the desired objectives for the postwar commercial world are satisfactorily attained, at least positive steps have been taken to meet a complex situation.